

FISCAL NOTE
SB 1263 - HB 1934

February 18, 2005

SUMMARY OF BILL: Exempts food and food ingredients from the local option sales tax, effective January 1, 2006.

ESTIMATED FISCAL IMPACT:

Increase State Revenues - \$4,950,000 FY06
\$9,900,000 FY07

Decrease Local Govt. Revenues – Net Impact - \$77,000,000 FY06
\$153,900,000 FY07

Assumptions:

- Taxable sale of food and food ingredients in Tennessee is \$7.0 billion.
- Current local option sales tax collections (average local option rate of 2.25%) on food estimated at \$157.5 million per year (\$7.0 billion spent on food each year X 2.25% local option sales tax rate = \$157.5 million).
- Eliminating the local option sales tax on food will reduce local government revenues by approximately \$157.5 million per year.
- 90% of tax savings spent on other sales-taxable goods and services.
- \$141.75 million spent on other sales-taxable goods and services (\$157.5 million X 90% = \$141.75 million).
- Increase in state revenues estimated at \$9.9 million (\$141.75 million X 7% state sales tax rate = \$9.9 million).
- Increase in local government revenue resulting from purchases of other sales-taxable goods and services is estimated at \$3.2 million (\$141.75 million X 2.25% local option sales tax = \$3.2 million).
- Increase in local government revenues from state-shared tax allocation is estimated at \$420,300 per year (4.2462% allocated to municipalities).
- Net impact to local government is an estimated decrease in revenues of \$153.9 million (-\$157.5 million decline + \$3.2 million gain + \$420,000 gain = -\$153.9 million).
- Due to this bill's January 1, 2006 effective date, there will be half-year impact for FY06 and full-year impacts thereafter.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



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James W. White, Executive Director